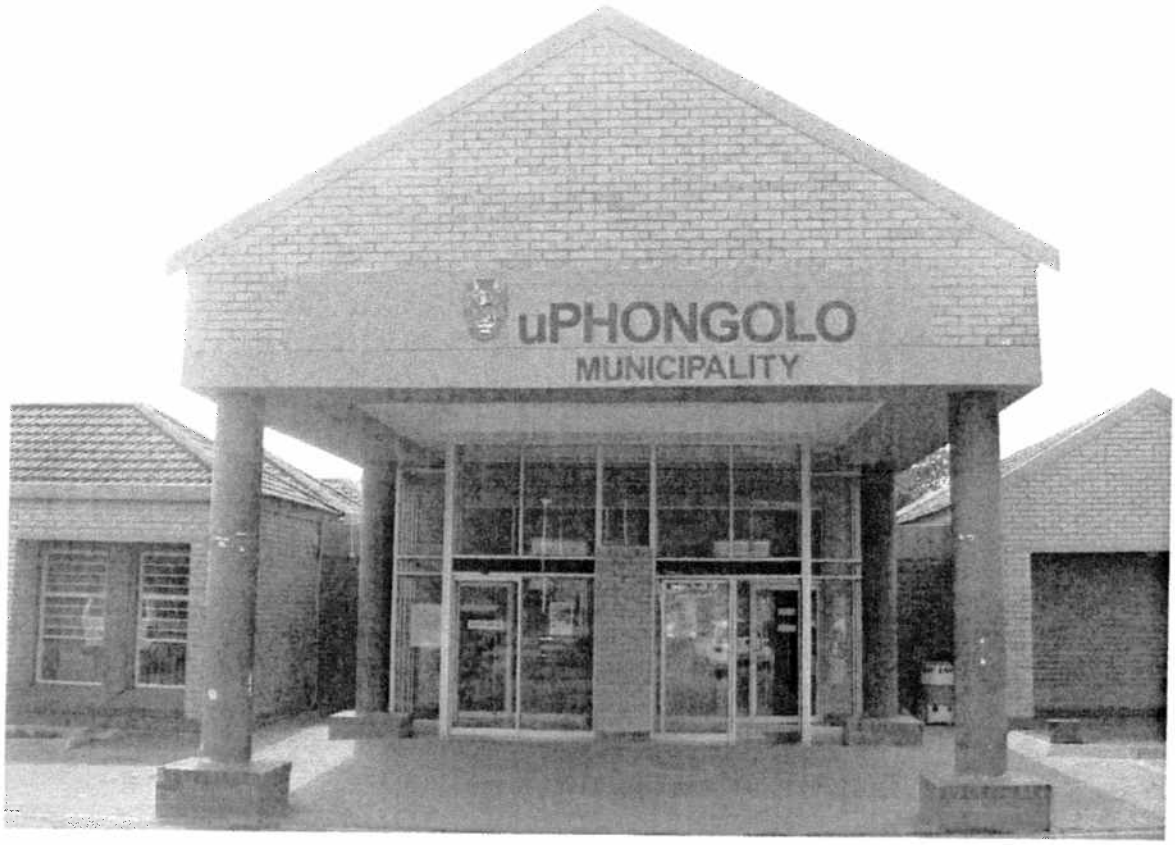

uPhongolo Municipality

Financial statements
for the year ended 30 June 2009

General Information

Nature of business and principal activities	Provision of municipal services to the community of uPhongolo
Chief Finance Officer (CFO)	Andre Marx (1 March 09 - 30 June 09) O. Van Tonder (1 July 08 - 28 Feb 09)
Accounting Officer	Fatima Jardim
Business address	Municipal Office 61 Martin Street Pongola 3170
Postal address	P.O. Box 191 Pongola 3170
Bankers	First National Bank of South Africa ABSA

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and will be given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practices (GRAP) with assistance from the service provider KPMG.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The financial statements are set out on pages 4 to 31, and have been prepared on the going concern basis.

28/08/2009.

Accounting Officer
F. Jardim (MS)

Statement of Financial Position

	Note(s)	2009 R	2008 R
Net Assets and Liabilities			
Net Assets			
Accumulated surplus		47 615 467	48 018 175
Non-Current Liabilities		**9 982 120**	**6 981 192**
Provisions	13	5 536 446	3 766 446
External Loans	14	4 397 061	3 377 027
Post Retirement Benefits - Medical Aid	15	197 911	148 149
Revenue Received in Advance - Land Sales		(149 298)	(310 430)
Current Liabilities		**18 674 738**	**15 793 031**
Trade and other payables	16	6 409 865	4 233 570
VAT Payable	17	-	1 138 825
Unspent conditional grants and receipts	12	10 619 001	10 289 932
Provisions	13	316 874	130 704
Current portion of long term liability	14	1 328 998	-
Total Net Assets and Liabilities		**76 272 325**	**70 792 398**
Assets			
Non-Current Assets		**56 871 571**	**51 760 243**
Investment property	4	14 930 941	15 283 705
Property, plant and equipment	5	37 490 898	31 472 931
Intangible assets	6	14 493	5 569
Assets in construction	7	4 435 239	4 998 038
Current Assets		**19 400 754**	**19 032 155**
Inventories	8	117 810	-
Trade and other receivables	9	15 136 631	14 807 293
VAT	10	128 548	-
Cash and cash equivalents	11	4 017 765	4 224 862
Total Assets		**76 272 325**	**70 792 398**

Statement of Financial Performance

	Note(s)	2009 R	2008 R
Revenue			
Service charges	20	11 856 058	10 493 035
Rental Income		86 355	782 579
Interest received		2 053 356	2 864 432
Public contributions, Donated and contributed property, plant and equipment		1 000	-
Licences and permits		2 193 475	2 444 841
Government grants	21	36 719 318	21 323 798
Rates General Assessment		6 605 307	3 363 602
Fees earned		126 769	96 259
Sundry income		1 642 961	1 466 309
Interest received - investment	27	269 029	609 308
Total Revenue		**61 553 628**	**43 444 163**
Expenditure			
Personnel	24	(23 686 808)	(20 055 590)
Depreciation and amortisation	28	(2 451 520)	(1 877 607)
Finance costs	29	(518 574)	(629 133)
Debt impairment	26	(5 559 587)	(3 779 140)
Repairs and maintenance		(2 220 044)	(1 162 935)
General Expenses	22	(29 106 183)	(24 686 696)
Total Expenditure		**(63 542 716)**	**(52 191 101)**
Deficit for the year		**(1 989 088)**	**(8 746 938)**
Attributable to:			
Net Asset holders of the controlling entity		(1 989 088)	(8 746 938)

Statement of Changes in Net Assets

	Statutory Funds R	Trust Funds R	Reserves R	Total Reserves	Accumulated surplus R	Total net assets R
Opening balance as previously reported	16 608 496	(3 476 886)	198 083	13 329 693	3 884 563	17 214 256
Adjustments	-	-	-	-	(2 733 211)	(2 733 211)
Profit/(Loss) for the period	(81 343)	213 907	12 442	226 349	90 223	235 229
Appropriations						
Balance at 01 July 2008	**16 527 153**	**(3 262 979)**	**210 525**	**13 474 699**	**1 241 575**	**14 716 274**
Changes in net assets						
GRAP Conversion	(16 527 153)	3 262 979	(210 525)	(13 474 699)	52 801 796	39 327 097
Prior Year Adjustments	-	-	-	-	(6 025 196)	(6 025 196)
Total changes	(16 527 153)	3 262 979	(210 525)	(13 474 699)	46 776 600	33 301 901
Balance Restated at 01 July 2008	-	-	-	-	**48 018 175**	**48 018 175**
Changes in net assets						
Net deficit for the year	-	-	-	-	(1 989 090)	(1 989 090)
GRAP Conversion adjustments	-	-	-	-	1 586 382	1 586 382
Total changes	-	-	-	-	(402 708)	(402 708)
Balance at 30 June 2009	-	-	-	-	**47 615 467**	**47 615 467**

Note(s)

Cash Flow Statement

	Note(s)	2009 R	2008 R
Cash flows from operating activities			
Cash receipts from customers		60 955 264	44 730 939
Cash paid to suppliers and employees		(57 496 277)	(47 485 051)
Cash generated from (used in) operations	31	3 458 987	(2 754 112)
Interest income		269 029	609 308
Finance costs		(518 574)	(629 133)
Net cash from operating activities		**3 209 442**	**(2 773 937)**
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(8 463 409)	(3 520 661)
Sale of investment property	4	352 764	299 285
Purchase of other intangible assets	6	(15 000)	(5 728)
Transfer of assets in construction		562 799	-
Movement - GRAP adjustments		1 586 381	6 015 196
Net cash from investing activities		**(5 976 465)**	**2 788 092**
Cash flows from financing activities			
Movement in external loans		2 349 032	3 377 027
Movement in post retirement benefits - medical aid		49 762	148 149
Movement in revenue received in advance - land sales		161 132	(310 430)
Net cash from financing activities		**2 559 926**	**3 214 746**
Total cash movement for the year		**(207 097)**	**3 228 901**
Cash at the beginning of the year		4 224 862	995 961
Net increase (decrease) in cash and cash equivalents	11	**4 017 765**	**4 224 862**

Accounting Policies

1. Presentation of Financial Statements

The annual financial statements have been prepared on a accrual basis of accounting and are in accordance with historical cost convention unless otherwise specified.

The financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board in accordance with section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003). The following standards are applicable:

GRAP 1 - Presentation of financial statements
GRAP 2 - Cashflow statements
GRAP 3 - Accounting policies, estimates and errors
GRAP 4 - Effects of changes in foreign exchange rates
GRAP 5 - Borrowing costs
GRAP 6 - Consolidated and separate financial statements
GRAP 7 - Investment in Associates
GRAP 8 - Interests in Joint Ventures
GRAP 9 - Revenue from exchange transactions
GRAP 10 - Hyperinflation economies
GRAP 11 - Construction contracts
GRAP 12 - Inventories
GRAP 13 - Leases
GRAP 14 - Events after reporting date
GRAP 16 - Investment properties
GRAP 17 - Property, plant and equipment
GRAP 19 - Provisions and contingent liabilities/assets
GRAP 23 - Revenue from non-exchange transactions
GRAP 100 - Non-current assets held for sale and discontinued operations
GRAP 102 - Intangible assets

The principle accounting policies adopted in the preparation of these financial statements are set out below.

These accounting policies are consistent with the previous period, except for the changes set out in note in the relevant policy .

1.1 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions.

Debt impairment

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

On debtors a provision is recognised in surplus and deficit when it may not be recoverable. The provision is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Investment property

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the municipality, and the cost of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less any depreciation. Land that constitutes investment property is carried at cost and is not depreciated.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

1.3 Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment.

Property, plant and equipment, is stated at cost, less accumulated depreciation, except for Roads and Stormwater which are revalued. Land is not depreciated as it is deemed to have an indefinite life.

Impairment has not be assessed in terms of Directive 4 issued 4 March 2009.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets was measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Subsequent expenditure is capitalized when the recognition and measurement criteria of an asset are met.

Depreciation is calculated on cost, using the straight-line method over the estimated useful lives of the assets. The annual depreciation rates are based on the following estimated asset lives:-

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Accounting Policies

1.3 Property, plant and equipment (continued)

Item	Average useful life
Land	Indefinite
Buildings	30 years
Plant and machinery	5 years
Furniture and fixtures	1 - 5 years
Motor vehicles	5 years
Office equipment	5 years
IT equipment	5 years
Infrastructure	
• Roads	20 years
• Electricity	20-30 years
• Solid Waste	0 years
• Storm Water	20-30 years
• Sewerage	15-20 years
• Parks and Gardens	3 - 5 years
Community	
• Buildings	30 years
• Recreational facilities	20-30 years
• Security	5 years
Other	20 - 30 years
Tools and loose gear	1 - 5 years

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognized in the Statement of Financial Performance.

Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

The cost to restore the landfill site is incurred in a monthly basis and is funded from operating income.

1.5 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

Reassessing the useful life of an intangible asset with a definite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Accounting Policies

1.5 Intangible assets (continued)

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	3 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.6 Financial instruments

Initial recognition

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial assets and financial liabilities are recognised on the municipality's statement of financial position when the municipality becomes party to the contractual provisions of the instrument.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in the statement of financial performance within operating expenses. When a trade receivable is uncollected, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the statement of financial performance.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Other financial liabilities are measured initially at fair value and subsequently at amortised cost, using the effective interest rate method.

Derecognition

Financial assets

Accounting Policies

1.6 Financial instruments (continued)

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating leases - lessor

Operating lease income is recognised as an income on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

Income for leases is disclosed under revenue in the statement of financial performance.

Accounting Policies

1.7 Leases (continued)

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

1.8 Inventories

Inventories are measured at the lower of cost and net realisable value. Inventories consist of consumable stores

1.9 Impairment of assets

Based on the exemptions of Directive 4 issued 4 March 2009 No impairment testing was conducted on all the categories of Fixed Assets.

1.10 Employee benefits

Retirement benefits

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to government retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Other post retirement obligations

The municipality provides post-retirement medical aid benefits upon retirement of employees up until 1 July 2009. Current retirees will not be entitled to these benefits

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

1.11 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

1.11 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the business or part of a business concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for terminating their services;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 33.

1.12 Grants, Transfers & Donations

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

1.13 Revenue from exchange transactions

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the statement of financial position date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the statement of financial position date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable.

Interest and rental income is recognized on a time proportion basis.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.14 Revenue from non-exchange transactions

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Levies are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Accounting Policies

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:

- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

1.15 Grants, transfers and donations

Grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

Donations are measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.16 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.17 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.19 Unauthorised, Irregular, Fruitless and Wasteful Expenditure

Unauthorized Expenditure

Unauthorized expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act no.56 of 2003). Unauthorized expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Irregular Expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No.20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorized expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Fruitless and Wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance

1.20 Use of Estimates

Accounting Policies

1.20 Use of Estimates (continued)

The preparation of financial statements in conformity with Generally Recognised Accounting Practice requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.21 Presentation of Currency

These financial statements are presented in South African Rand.

1.22 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.23 Conditional Grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.24 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.25 Going concern assumption

These annual financial statements have been prepared on a going concern basis.

	2009 R	2008 R

2. Changes in accounting policy

The financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

- Exemptions as set out in Directive 4 issued 4 March 2009.

GRAP Standards

During the year, the municipality changed its accounting policy to comply with the new GRAP standards. The municipality has applied these changes retrospectively where practicable to do so.

All standards that are issued and effective have been complied with except for those transitional provisions as set out in Directive 4 issued 4 March 2009.

The aggregate effect of the changes in accounting policy on the financial statements for the year ended 30 June 2008 is as follows:

Statement of financial position

Statutory Funds		
Previously stated - Capital Development Fund and Public Improvement Fund	-	16 527 154
Implementation of GRAP - adjustment	-	(16 527 154)
	-	-
Loans Redeemed		
Previously stated	-	47 775 403
Implementation of GRAP - adjustment	-	(47 775 403)
	-	-
Provision for Insurance - NDR		
Previously stated	-	54 934
Implementation of GRAP	-	(54 934)
	-	-
Uniforms for New Staff - NDR		
Previously stated	-	(12 444)
Implementation of GRAP	-	12 444
	-	-
Property, Plant & Equipment		
Previously stated	-	62 390 168
Directive 4 - implementation	-	-
	-	**62 390 168**
Lease Creditor - Smoothing		
Previously stated	-	-
Adjustment	-	59 467
	-	**59 467**
Lease Debtor - Smoothing		
Previously stated	-	-
Adjustment	-	42 832

	2009 R	2008 R
2. Changes in accounting policy (continued)		
	-	**42 832**
Provisions		
Previously stated	-	695 615
Adjustment	-	3 201 535
	-	**3 897 150**
Unappropriated Surplus		
Previously stated	-	1 241 575
Implementation of GRAP Standards - adjustments	-	(49 259 749)
	-	**(48 018 174)**
Statement of financial performance		
Backlog Depreciation - Property, Plant and Equipment		
Previously stated	-	-
Implementation of GRAP - adjustment	-	11 237 662
	-	**11 237 662**

3. Statements and interpretations not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective and have not been early adopted by the municipality:

- GRAP 18 – Segment Reporting.
- GRAP 23 – Revenue from Non-exchange transaction
- GRAP 24 – Budget Information
- GRAP 100 – Heritage Assets.

4. Investment property

	2009			2008		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	14 930 941	-	14 930 941	15 283 705	-	15 283 705

Reconciliation of investment property - 2009

	Opening Balance	Disposals	Total
Investment property	15 283 705	(352 764)	14 930 941

Reconciliation of investment property - 2008

	Opening Balance	Disposals	Total
Investment property	15 582 990	(299 285)	15 283 705

A register containing the information required by section 63 of the Municpal Finance Management Act is available for inspection at the registered office of the municipality.

5. Property, plant and equipment

	2009 R	2008 R

5. Property, plant and equipment (continued)

	2009			2008		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land and buildings	2 491 739	-	2 491 739	2 491 739	-	2 491 739
Buildings	9 924 222	(2 122 797)	7 801 425	9 924 222	(1 792 123)	8 132 099
Plant and machinery	38 000	(38 000)	-	38 000	(38 000)	-
Furniture and fixtures	1 751 230	(1 453 096)	298 134	1 420 324	(1 204 304)	216 020
Motor vehicles	1 544 914	(1 226 460)	318 454	1 449 079	(996 790)	452 289
Office equipment	17 439	(17 439)	-	17 439	(17 439)	-
IT equipment	683 336	(456 096)	227 240	493 986	(399 188)	94 798
Infrastructure	33 536 423	(7 762 508)	25 773 915	25 808 152	(6 301 854)	19 506 298
Community	320 107	(126 931)	193 176	320 107	(97 691)	222 416
Tools and loose gear	633 924	(429 260)	204 664	577 342	(350 009)	227 333
Other property, plant and equipment	232 515	(50 364)	182 151	170 047	(40 108)	129 939
Total	**51 173 849**	**(13 682 951)**	**37 490 898**	**42 710 437**	**(11 237 506)**	**31 472 931**

Reconciliation of property, plant and equipment - 2009

	Opening Balance	Additions	Depreciation	Total
Land and buildings	2 491 739	-	-	2 491 739
Buildings	8 132 099	-	(330 674)	7 801 425
Furniture and fixtures	216 020	330 905	(248 791)	298 134
Motor vehicles	452 289	95 835	(229 670)	318 454
IT equipment	94 798	189 350	(56 908)	227 240
Infrastructure	19 506 298	7 728 270	(1 460 653)	25 773 915
Community	222 416	-	(29 240)	193 176
Tools and loose gear	227 333	56 581	(79 250)	204 664
Other property, plant and equipment	129 939	62 468	(10 256)	182 151
	31 472 931	**8 463 409**	**(2 445 442)**	**37 490 898**

Reconciliation of property, plant and equipment - 2008

	Opening Balance	Additions	Depreciation	Total
Land and buildings	2 491 739	-	-	2 491 739
Buildings	8 462 772	-	(330 673)	8 132 099
Furniture and fixtures	351 540	2 018	(137 538)	216 020
Motor vehicles	687 491	-	(235 202)	452 289
IT equipment	54 092	86 534	(45 828)	94 798
Infrastructure	17 099 675	3 432 109	(1 025 486)	19 506 298
Community	251 656	-	(29 240)	222 416
Tools and loose gear	293 274	-	(65 941)	227 333
Other property, plant and equipment	137 477	-	(7 538)	129 939
	29 829 716	**3 520 661**	**(1 877 446)**	**31 472 931**

6. Intangible assets

	2009			2008		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software, other	20 728	(6 235)	14 493	5 728	(159)	5 569

Notes to the Financial Statements

	2009 R	2008 R

6. Intangible assets (continued)

Reconciliation of intangible assets - 2009

	Opening Balance	Additions	Amortisation	Total
Computer software	5 569	15 000	(6 076)	14 493

Reconciliation of intangible assets - 2008

	Opening Balance	Additions	Amortisation	Total
Computer software	-	5 728	(159)	5 569

Other information

No provision has been made for servitudes.

7. Assets in construction

This consists of

Capital WIP - Phase 3	1 371 088	165 486 :
WIP - Upgrading of Road-Penguin Street	3 064 151	683 946
Capital WIP - MIG Magwinsi	-	3 070 319
Capital WIP - Upgrading De Waal St	-	1 078 288
Total	**4 435 239**	**4 998 039**

8. Inventories

Consumable stores	117 810	-

	2009 R	2008 R

9. Trade and other receivables

Trade debtors	29 147 361	23 308 081
Deposits	65 000	-
Housing debtors	3 262 979	3 262 979
Sundry Debtors	353 582	360 289
Provision for bad debts	(17 726 475)	(12 166 888)
Lease debtor	34 184	42 832
	15 136 631	**14 807 293**

The creation and release of provision for impaired receivables have been included in operating expenses in the statement of financial performance (note). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of each class of loan mentioned above. The municipality does not hold any collateral as security.

10. Other receivables - VAT

VAT	128 548	-

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	4 600	4 600
Bank balances	616 628	839 162
Short-term deposits	3 396 537	3 381 100
	4 017 765	**4 224 862**

12. Unspent conditional grants and receipts

Unspent Grants comprises:

Performance Management Grant	-	27 788
IDP Capacity Building	-	16 858
MAP Grant	634 344	438 430
MFMA Grant	-	139 996
DEV, Admin, Capacity Grant	205 866	105 866
Pongola Poort Reserve Grant	309 151	453 209
Financial Management ZDM Grant	-	8 170
Municipal Systems Implementation (AFS & GAMAP)	333 193	24 789
Valuation Grant	1 456 524	1 250 804
Municipal Infrastructure Grant	2 456 761	1 309 818
MIG - PGA Stormwater	-	3 162 999
Intergration and Reds Grant	98 000	98 000
Tourism Grant	807 801	798 355
Strategic Support	100 000	100 000
Synergistic Support Grant	388 168	392 644
Housing SP Com Gardens Grant	91 033	101 761
Planning and Development Grant	47 621	88 611
MIG Chip and Spray	(7 728)	-
Finance Management Grant	300 073	281 614
MIG Vat Reserves	242 113	1 018 209
VAT Reserves Other	46 836	46 836
MDPCB	100 000	100 000
Backlog Studying Grant	90 070	90 070

	2009 R	2008 R
12. Unspent conditional grants and receipts (continued)		
Library Cybercadet Grant	56 964	-
Corridor - Dev - Nodal point	2 293 324	-
ZDM Water Expenses	(32 444)	(32 444)
Pongola Poort Reserve Grant	50 757	-
Grant retentions	550 574	267 549
	10 619 001	**10 289 932**

The nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the entity has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

These amounts are invested in a ring-fenced investment until utilised.

13. Provisions

Reconciliation of provisions - 2009

	Opening Balance	Additions	Total
Restoration of Landfill site	1 878 012	1 593 989	3 472 001
Provision - Leave and performance Bonuses	2 019 138	362 181	2 381 319
	3 897 150	**1 956 170**	**5 853 320**

Reconciliation of provisions - 2008

	Opening Balance	Additions	Total
Restoration of Landfill sites	-	1 878 012	1 878 012
Provision for Leave and performance bonuses	-	2 019 138	2 019 138
	-	**3 897 150**	**3 897 150**

Non-current liabilities	5 536 446	3 766 446
Current liabilities - Performance Bonuses	316 874	130 704
	5 853 320	**3 897 150**

14. External Loans		
External Loans - Non-current portion	4 397 061	3 377 027
External Loans - Current portion	1 328 998	-
15. Post Retirement Benefits - Medical Aid		
Post Retirement Medical Aid Obligation	197 911	148 149
16. Trade and other payables		
Trade payables	363 885	1 362 380
Accrued leave pay	1 081 634	695 615
Accrued expenses	77 376	-
Deposits received	785 348	409 425
Sundry Creditors	76 236	-
Lease Creditor	37 883	59 467
Unpresented Cheques	3 987 503	1 706 683
	6 409 865	**4 233 570**

Notes to the Financial Statements

	2009 R	2008 R
17. Taxes and transfers payable		
VAT payable	-	1 138 825
18. Revenue		
Rendering of services - rates and refuse	11 856 058	10 493 035
Rental Income	78 355	782 579
Interest received	2 053 356	2 864 432
Public contributions, Donated and contributed property, plant and equipment	1 000	-
Licences and permits	2 193 475	2 444 841
Government grants	36 719 318	21 323 798
Rates	6 605 307	3 363 602
	59 506 869	**41 272 287**
19. Property Rates		
Rates received		
20. Service charges		
Sale of electricity	8 399 269	6 965 444
Refuse removal	3 456 789	3 527 591
	11 856 058	**10 493 035**
21. Government grants and subsidies		
Equitable Share	26 630 251	10 773 919
Conditional grants	10 089 067	10 549 879
	36 719 318	**21 323 798**

Equitable Share

In terms of the constitution, this grant is used to subsidize the provision of basic services to indigent community member in terms of the indigent register. Households with a total montly income of less than R1000 (2008: R1000) may apply to be registered.

ZDM Grant - Belgrade MPCC

Current-year receipts	600 000	-
Conditions met - transferred to revenue	(600 000)	-
	-	-

Performance Management Grant

Balance unspent at beginning of year	27 788	19 536
Current-year receipts	-	8 252
Conditions met - transferred to revenue	(27 788)	-
	-	**27 788**

IDP Capacity Grant

Balance unspent at beginning of year	16 858	16 858
Conditions met - transferred to revenue	(16 858)	-

	2009 R	2008 R
21. Government grants and subsidies (continued)		
	-	**16 858**
MAP		
Balance unspent at beginning of year	438 430	1 762 299
Current-year receipts	500 000	500 000
Conditions met - transferred to revenue	(501 357)	(1 777 033)
Interest	89 303	-
Transfer to Other Vat reserves	-	(46 836)
Transfer from Corridor Development Nodal Point	107 967	-
	634 343	**438 430**
Financial Management Grant - ZDM		
Balance unspent at beginning of year	8 170	8 170
Conditions met - transferred to revenue	(8 170)	-
	-	**8 170**
MFMA		
Balance unspent at beginning of year	139 996	145 000
Conditions met - transferred to revenue	(139 996)	(5 004)
	-	**139 996**
Develop Admin Capacity Grant		
Balance unspent at beginning of year	105 866	255 640
Current-year receipts	100 000	-
Conditions met - transferred to revenue	-	(149 774)
	205 866	**105 866**
Pongolo Poort Reserve		
Balance unspent at beginning of year	453 209	80 862
Current-year receipts	197 680	777 852
Conditions met - transferred to revenue	(259 481)	(405 505)
Transfer to Candover Tourism	(31 500)	-
	359 908	**453 209**
Municipal System Improvement		
Balance unspent at beginning of year	24 789	24 789
Current-year receipts	400 000	-
Conditions met - transferred to revenue	(91 597)	-
	333 192	**24 789**
Valuation Roll Grant		
Balance unspent at beginning of year	1 250 804	265 000
Current-year receipts	500 000	985 804
Conditions met - transferred to revenue	(294 280)	-
	1 456 524	**1 250 804**

	2009 R	2008 R
21. Government grants and subsidies (continued)		
Intergration and Reds Grant		
Balance unspent at beginning of year	98 000	150 000
Conditions met - transferred to revenue	-	(52 000)
	98 000	**98 000**
Tourism Grant - Candover & Craft Centre		
Balance unspent at beginning of year	798 355	-
Current-year receipts	-	800 000
Conditions met - transferred to revenue	(22 054)	(1 645)
Transfer from Pongola Poort Reserve	31 500	-
	807 801	**798 355**
Strategic Support Grant		
Balance unspent at beginning of year	100 000	-
Current-year receipts	-	100 000
	100 000	**100 000**
Synergistic Partnership (Traditional Councils)		
Balance unspent at beginning of year	392 644	-
Current-year receipts	-	500 000
Conditions met - transferred to revenue	(4 475)	(107 357)
	388 169	**392 643**
Housing SP Community Gardens		
Balance unspent at beginning of year	101 761	103 242
Conditions met - transferred to revenue	(10 728)	(1 481)
	91 033	**101 761**
Planning and Development		
Balance unspent at beginning of year	88 611	88 611
Conditions met - transferred to revenue	(40 990)	-
	47 621	**88 611**
KZN Housing Project - Ncotshane		
Current-year receipts	50 000	-
Conditions met - transferred to revenue	(50 000)	-
	-	-
Financial Management Grant		
Balance unspent at beginning of year	281 614	500 000
Current-year receipts	500 000	500 000
Conditions met - transferred to revenue	(619 375)	(718 386)
Interest	137 833	-

	2009 R	2008 R
21. Government grants and subsidies (continued)		
	300 072	**281 614**
Other VAT Reserves		
Balance unspent at beginning of year	46 836	-
Transfer from MAP	-	46 836
	46 836	**46 836**
MDPCB		
Balance unspent at beginning of year	100 000	-
Current-year receipts	-	100 000
	100 000	**100 000**
Pongola Poort Marketing		
Current-year receipts	563 297	-
Conditions met - transferred to revenue	(563 297)	-
	-	**-**
Library Cybercadet Grant		
Balance unspent at beginning of year	78 900	-
Conditions met - transferred to revenue	(21 935)	-
	56 965	**-**
Backlog Study		
Balance unspent at beginning of year	90 070	-
Current-year receipts	-	148 841
Conditions met - transferred to revenue	-	(58 771)
	90 070	**90 070**
Corridor Dev - Nodal Point		
Current-year receipts	2 500 000	-
Conditions met - transferred to revenue	(98 708)	-
Transfer to MAP	(107 968)	-
	2 293 324	**-**
Municipal Infrastructure Grant		
Balance unspent at beginning of year	1 309 818	1 476 857
Current-year receipts	7 649 516	8 124 094
Conditions met - transferred to revenue	(6 540 602)	(7 272 924)
Interest	38 513	-
Transfer to MIG Reserves	-	(1 018 209)
	2 457 245	**1 309 818**
MIG VAT Reserves		
Balance unspent at beginning of year	1 018 209	-

	2009 R	2008 R
21. Government grants and subsidies (continued)		
Current-year receipts	1 152 425	-
Conditions met - transferred to revenue	(1 928 521)	-
Transfer from MIG	-	1 018 209
	242 113	**1 018 209**

22. General expenses

Advertising	197 877	173 467
Auditors remuneration	875 317	784 781
Bank charges	152 228	167 841
Cleaning	230 248	136 786
Consulting and professional fees	697 404	1 022 895
Entertainment	28 415	29 136
Hire	174 106	46 905
Insurance	616 555	615 045
Lease rentals on operating lease	725 334	1 447 719
Promotions and sponsorships	600 891	390 549
Motor vehicle expenses	94 283	71 538
Fuel and oil	1 360 321	853 253
Postage and courier	23 825	20 546
Printing and stationery	1 148 166	723 233
Protective clothing	97 930	123 984
Security (Guarding of municipal property)	89 475	155 506
Staff welfare	582	1 002
Subscriptions and membership fees	84 049	74 038
Telephone and fax	523 998	598 380
Training	278 943	140 021
Refuse	119 599	16 204
Electricity	39 203	43 169
Water	-	78 867
General expenses	19 167 275	14 963 115
provisions	1 780 159	2 008 716
	29 106 183	**24 686 696**

Included in contributions is the bad debts provision.

23. Operating deficit

Operating deficit for the year is stated after accounting for the following:

Operating lease charges		
Equipment		
• Contractual amounts	725 334	1 447 719
Depreciation on property, plant and equipment	2 451 520	1 877 607
Employee costs	23 686 808	20 055 590

	2009 R	2008 R
24. Employee related costs		
Basic	13 093 700	9 884 075
Bonus	514 697	504 049
Medical aid - company contributions	562 765	468 183
UIF	118 844	76 880
WCA	193 516	-
SDL	53 482	19 358
Post-employment benefits - Pension - Defined contribution plan	919 273	931 207
Travel, motor car, accommodation, subsistence and other allowances	5 179 872	4 372 102
Overtime payments	1 979 214	1 072 659
Acting allowances	3 862	18 200
Housing benefits and allowances	26 955	28 288
Cellphone Allowance	307 756	43 027
Leave	677 383	2 584 049
Group Life	50 907	49 721
Industrial Council	4 582	3 792
	23 686 808	**20 055 590**
Remuneration of municipal manager		
Annual Remuneration	366 121	330 754
Telephone Allowance	12 000	12 000
Performance Bonuses	-	28 980
Contributions to UIF and Industrial Council	1 539	1 511
Housing Allowance	12 888	12 888
Travel Allowance	105 000	105 000
	497 548	**491 133**
Remuneration of chief finance officer		
Annual Remuneration	280 800	311 000
Travel Allowance	90 000	50 000
Acting Allowance	2 377	-
Contributions to UIF and Industrial Council	1 282	1 380
Housing Allowance	8 800	-
Telephone Allowance	5 000	5 000
	388 259	**367 380**
Remuneration of the Manager : Technical Services		
Annual Remuneration	229 841	167 927
Travel Allowance	37 041	-
Contributions to UIF and Industrial Council	1 539	1 259
Acting Allowance	-	18 200
Cell phone Allowance	3 000	-
	271 421	**187 386**
Corporate and human resources (corporate services)		
Annual Remuneration	257 902	233 358
Acting Allowance	12 382	12 043
Housing Allowance	9 681	16 595
Cellphone Allowance	6 000	6 000
Travel Allowance	74 081	74 081
Contribution to UIF and Industrial Council	1 539	1 511

	2009 R	2008 R
24. Employee related costs (continued)	**361 585**	**343 588**
Remuneration of Community Services Manager		
Annual Remuneration	312 623	149 014
Travel Allowance	-	28 000
Cellphone Allowance	6 000	5 500
Contributions to UIFand Industrial Council	1 539	999
	320 162	**183 513**
25. Remuneration of councillors		
Mayor	281 603	248 012
Deputy Mayor	227 860	200 075
Mayoral Commitee Members	364 110	188 091
Speaker	230 400	193 346
Councillors	2 738 582	2 539 727
	3 842 555	**3 369 251**
26. Debt impairment		
Bad debts	5 559 587	3 779 140
27. Investment revenue		
Interest revenue		
Bank	269 029	609 308
28. Depreciation and amortisation		
Property, plant and equipment	2 451 520	1 877 607
29. Finance costs		
Other interest paid	518 574	629 133
30. Auditors' remuneration		
Fees	800 299	784 781
31. Cash generated from (used in) operations		
Deficit before taxation	(1 989 088)	(8 746 938)
Adjustments for:		
Depreciation and amortisation	2 451 520	1 877 607
Interest received	(269 029)	(609 308)
Finance costs	518 574	629 133
Movements in provisions	1 956 170	3 201 535
Changes in working capital:		
Inventories	(117 810)	-
Trade and other receivables	(329 341)	(2 064 395)
Trade and other payables	2 176 295	641 819

Notes to the Financial Statements

	2009 R	2008 R
31. Cash generated from (used in) operations (continued)		
VAT	(1 267 373)	(304 047)
Unspent conditional grants and receipts	329 069	2 620 482
	3 458 987	**(2 754 112)**
32. Commitments		
Authorised capital expenditure		
Commitments in respect of capital expenditure - approved and contracted for:		
• Infrastructure	5 490 000	12 843 000
Not yet contracted for and authorised	800 000	167 698
Operating leases – as lessee (expense)		
Minimum lease payments due		
- within one year	207 758	285 646
- in second to fifth year inclusive	11 173	218 930
	218 931	**504 576**
Operating leases – as lessor (income)		
Minimum lease payments due		
- within one year	182 259	193 536
- in second to fifth year inclusive	228 304	363 364
- later than five years	102 267	149 466
	512 830	**706 366**

33. Contingencies

Contingent liability

Eskom have a potential claim against the municipality based on unbilling of electricity dating back to 2006. Eskom had only billed the municipality for one transformer when in fact they had two. The municipality was not aware of the underbilling during the aforementioned period and are seeking evidence from Eskom of this possible liability. It is estimated at R4.5 million. There is a high probabilty of an outflow however this matter has not been finalised at year end and negotiations are still ongoing.

34. Events after the reporting date

No events after the reporting date have been identified.

35. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Current year subscription / fee	800 299	784 781
PAYE and UIF		
Opening balance	(12 746)	-
Current year subscription / fee	2 118 460	1 699 514
Amount paid - current year	(2 110 134)	(1 712 260)
	(4 420)	**(12 746)**

Notes to the Financial Statements

	2009 R	2008 R

35. Additional disclosure in terms of Municipal Finance Management Act (continued)

Pension and Medical Aid Deductions

Current year subscription / fee	2 115 905	1 627 760
Amount paid - current year	(2 115 905)	(1 627 760)
	-	-

VAT

VAT receivable	128 548	-
VAT payable	-	1 138 825
	128 548	**1 138 825**

VAT output payables and VAT input receivables are shown in note 10.

Councillors' arrear consumer accounts

There were no councillors with arrear accounts as at 30 June 2009 or in the prior year 30 June 2008.

36. Related Parties

There are no known related parties.

APPENDIX A

uPHONGOLO LOCAL MUNICIPALITY: SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2009

Bank	Department	Original Loan Amount	Interest rate	Redemption date	Balance at 1 July 2008	Received during the period	Add: Interest	Less: Repayments	Balance at 30 June 2009	CARRYING VALUE OF PROPERTY,PLANT & EQUIPMENT
DBSA	Electricity	150 000.00	13.45%	31/12/2008	9 825		666	(10 492)	-	57 500
DBSA	Electricity	170 000.00	17.18%	31/12/2011	75 704		12 300	(14 842)	73 162	65 166
DBSA	Municipal Office	900 000.00	15.80%	30/06/2013	502 997		76 762	(74 666)	505 094	1 500 000
DBSA	Municipal Office	600 000.00	13.08%	30/06/2009	83 923		8 344	(46 134)	46 134	1 500 000
ABSA	Municipal Office	3 000 000.00	9.50%	01/08/2015	2 704 578		362 994	(484 777)	2 582 794	2 496 547
FNB	Electricity	2 500 000.00	13.78%	11/06/2014	-	2 500 000	18 877	-	2 518 877	-
					3 377 027	2 500 000	479 943	(630 911)	5 726 059	5 619 214

APPENDIX B

uPHONGOLO LOCAL MUNICIPALITY: ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2009

	Cost/ Revaluation					Accumulated Depreciation				
	Opening Balance	Additions	Under Construction	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	Carrying value
Land and Buildings										
Land	2 491 739	-	-	-	2 491 739	-	-	-	-	2 491 739
Building	9 924 222	-	-	-	9 924 222	1 792 123	330 674	-	2 122 797	7 801 426
	12 415 961	-	-	-	12 415 961	1 792 123	330 674	-	2 122 797	10 293 165
Infrastructure										
Electricity	3 486 774	-	-	-	3 486 774	749 970	148 249	-	898 219	2 588 555
Roads	11 661 194	7 706 558	-	-	19 367 753	4 130 302	841 991	-	4 972 293	14 395 459
Stormwater	9 625 369	-			9 625 369	1 347 931	459 346	-	1 807 277	7 818 092
Parks & Gardens	86 636	21 712			108 348	73 652	11 068	-	84 720	23 628
Solid Waste	948 179	-			948 179	-	-	-	-	948 179
	25 808 152	7 728 270	-	-	33 536 422	6 301 855	1 460 654	-	7 762 509	25 773 913
Community										
Community Assets	320 107	-	-	-	320 107	97 692	29 240	-	126 932	193 175
	320 107	-	-	-	320 107	97 692	29 240	-	126 932	193 175
Other Assets										
Computer Equipment	493 986	189 350	-	-	683 336	399 188	56 908	-	456 096	227 240
Furniture and Fittings	1 420 324	330 906	-	-	1 751 230	1 204 303	248 792	-	1 453 095	298 135
Motor Vehicles	1 449 079	95 835	-	-	1 544 914	996 790	229 670	-	1 226 460	318 454
Office Equipment	17 439	-	-	-	17 439	17 436	-	-	17 436	3
Plant and Equipment	38 000	-	-	-	38 000	38 000	-	-	38 000	-
Tools & Equipment	577 342	56 581	-	-	633 924	350 009	79 251	-	429 260	204 664
Other	170 047	62 468	-	-	232 515	40 108	10 257		50 365	182 150
	4 166 220	735 140	-	-	4 901 360	3 045 834	624 877	-	3 670 711	1 230 649
TOTAL	**42 710 437**	**8 463 409**	**-**	**-**	**51 173 849**	**11 237 506**	**2 445 442**	**-**	**13 682 951**	**37 490 898**

APPENDIX C

uPHONGOLO LOCAL MUNICIPALITY: SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2009

	Cost				Accumulated Depreciation				
Service	Opening Balance	Additions	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	Carrying amount
Community & Social Services	4 704 210	22 494	0	4 726 704	1 031 714	175 410	0	1 207 124	3 519 580
Electricity	3 485 020	21 585	0	3 506 605	748 524	155 088	0	903 612	2 602 993
Executive & Council	741 453	414 004	0	1 155 458	558 935	216 380	0	775 315	380 142
Finance & Administration	625 123	48 484	0	673 607	460 547	72 391	0	532 938	140 669
Health	2 575	0	0	2 575	2 575	0	0	2 575	-
Other	717 690	0	0	717 690	170 987	11 761	0	182 748	534 943
Planning & Development	8 392 129	17 961	0	8 410 090	1 224 662	261 001	0	1 485 663	6 924 427
Public Safety	55 720	0	0	55 720	55 720	-	0	55 720	-
Road Transport	22 527 932	7 917 170	0	30 445 101	6 620 744	1 511 477	0	8 132 221	22 312 881
Sport & Recreation	258 666	21 712	0	280 378	136 535	16 761	0	153 296	127 082
Waste Management	1 199 917	0	0	1 199 917	226 564	25 174	0	251 738	948 179
	42 710 437	**8 463 409**	**0**	**51 173 849**	**11 237 506**	**2 445 442**	**0**	**13 682 948**	**37 490 898**

APPENDIX D

UPHONGOLO MUNICIPALITY: SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2009

2008 Actual Income	2008 Actual Expenditure	2008 Surplus/ (Deficit)		2009 Actual Income	2009 Actual Expenditure	2009 Surplus/ (Deficit)
6 676 206	2 610 467	4 065 739	Assessment Rates	8 841 427	2 360 133	6 481 294
120 362	1 359 718	(1 239 356)	Belgrade	1 041 784	2 273 748	(1 231 964)
23 574	-	23 574	Caravan Park	33 200	-	33 200
96 259	718 079	(621 820)	Cemetery	124 219	973 090	(848 871)
-	2 086 383	(2 086 383)	Corporate Services	29 888	2 891 843	(2 861 955)
3 168 414	6 470 880	(3 302 466)	Council General Expenses	4 117 218	7 677 498	(3 560 280)
-	39 866	(39 866)	Housing	60 728	197 423	(136 695)
-	342 940	(342 940)	Human Resources	-	308 572	(308 572)
(941 575)	1 663 236	(2 604 811)	Municipal Buildings	301 172	1 998 444	(1 697 273)
775 904	227 984	547 920	Municipal Land	64 212	275 554	(211 342)
-	663 682	(663 682)	Municipal Manager	-	1 214 301	(1 214 301)
-	858 718	(858 718)	Municipal Offices	-	484 603	(484 603)
-	1 001 075	(1 001 075)	Parks & Gardens	-	1 206 486	(1 206 486)
38 272	904 114	(865 842)	Planning & Development	104 681	1 189 592	(1 084 911)
-	24 203	(24 203)	Pound	-	-	-
-	-	-	Pongolapoort Dam	709 682	740 248	(30 566)
753 793	1 043 998	(290 205)	Project Management	8 918 189	938 580	7 979 610
-	3 272 197	(3 272 197)	Roads & Stormwater	-	5 503 513	(5 503 513)
7 750	1 131 917	(1 124 167)	Technical Officer	36 380	2 398 521	(2 362 141)
14 110 265	3 613 476	10 496 789	Town Treasurer	18 643 523	7 395 548	11 247 975
-	594 653	(594 653)	Workshop	-	1 204 813	(1 204 813)
-	15 428	(15 428)	Aerodrome	-	87 620	(87 620)
-	-	-	Belgrade MPCC	-	7 516	(7 516)
-	480 954	(480 954)	Fire Brigade / disaster management	-	1 419 595	(1 419 595)
-	-	-	Health	-	-	-
810	756 563	(755 753)	Library	25 081	696 289	(671 208)
31 936	310 667	(278 731)	Sport & Recreation	45 154	437 222	(392 068)
2 050 609	1 340 311	710 298	Testing Grounds	1 866 420	1 163 458	702 961
220 031	190 121	29 910	Tourism	30 000	341 874	(311 874)
395 400	2 762 568	(2 367 168)	Traffic	326 600	3 576 120	(3 249 520)
6 887 657	3 724 779	3 162 878	Refuse	7 584 822	4 764 203	2 820 620
-	2 968	(2 968)	Sewerage	-	-	-
8 205 804	7 022 936	1 182 868	Electricity	10 329 542	11 536 606	(1 207 064)
-	119 800	(119 800)	Water	-	-	-
42 711 694	45 354 681	(2 642 987)	**TOTAL**	61 553 628	63 542 716	(1 989 088)

APPENDIX E (1)

uPHONGOLO LOCAL MUNICIPALITY: ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) AS AT 30 JUNE 2009

REVENUE	2009 Actual R	2009 Budget R	2009 Variance R	2009 Variance %	Explanation of significant variances greater than 10% versus Budget
Property rates	6 605 307	6 748 920	(143 613)	-2%	
Property rates - penalties imposed and collection charges	770 356	607 303	163 053	27%	The consumers deteriorating payrate necessitated the imposing of more interest and collection charges.
Service charges	11 856 058	11 354 408	501 650	4%	N/A
Rental of facilities and equipment	86 355	648 523	(562 168)	-87%	Consumers became more reluctant to rent council's community facilities because some were in desperate need of repairs
Interest earned - external investments	269 029	250 000	19 029	8%	N/A
Interest earned - outstanding debtors	1 283 000	650 000	633 000	97%	The consumers deteriorating payrate necessitated the imposing of more interest and collection charges.
Fines	326 600	343 767	(17 167)	-5%	N/A
Licences and permits -	2 193 475	1 834 793	358 682	20%	The regulating of the licences and permits falls under community services which had a staff shortage
Government grants and subsidies	36 719 318	27 437 536	9 281 782	34%	On establishment of the grant register it was found many grants through the years were never credited to the Income statement but left under the unspent grants incorrectly
Other income	1 443 130	2 458 780	(1 015 650)	-41%	Income like Aerodrome landing etc did not materialise as forecast when the budget was compiled.
Public contributions donated/contributed	1 000	-	1 000		
Gains on disposal of property, plant and equipment	-	5 757 500	-		
Total Revenue	**61 553 628**	**58 091 530**	**3 462 098**	**6%**	
EXPENDITURE					
Employee related costs	19 848 663	17 832 244	2 016 419	11%	The provisions for the Section 57 managers performance bonusses was debited to the Income statement at the full 14% provision.
Remuneration of Councillors	3 838 145	3 603 000	235 145	7%	N/A
Bad debts	5 559 587	2 922 000	2 637 587	90%	It was found that in all prior years inadequate provision was made for bad debts.
Depreciation	2 451 520	73 000	2 378 520	3258%	Converting to the standards of GRAP the municipality was not able to know what to use as a yardstick for depreciation of assets.
Repairs and maintenance	2 242 877	5 148 163	(2 905 286)	-56%	Due to the poor payrate council was not able to commit to expenditure knowing it has no cash.
Interest on external borrowings	518 574	274 254	244 320	89%	The Conversion of GRAP and the new FNB loan caused the overspenditure
General expenses - other	29 083 350	28 226 715	856 635	3%	N/A
Loss on disposal of property, plant and equipment -	-		-		
Total Expenditure	**63 542 716**	**58 079 376**	**5 463 340**	**9%**	
NET SURPLUS/(DEFICIT) FOR THE YEAR	**(1 989 088)**	**12 154**	**(2 001 242)**	**-16466%**	

APPENDIX E (2)

uPHONGOLO LOCAL MUNICIPALITY: ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT) FOR THE YEAR ENDED 30 JUNE 2009

	2009 Total Additions	2009 Budget	2009 Variance	2009 Variance	Explanation of Significant Variances greater than 5% versus Budget
	R	R	R	%	(Explanations to be recorded)
Land and Buildings					
Land	-		-	0%	
Building	-		-	0%	
	-		-	**0%**	
Infrastructure					
Electricity	-	-	-	0%	
Roads & Stormwater	7 706 558	5 490 000	2 216 558	40%	The most of the Roads & stormwater are MIG funded. The MIG functions under the DPLG financial year which makes it appear as if not all the mig funds have not been spent which is totally incorrect.
Parks & Gardens	21 712	22 500	(788)	-4%	N/A
Solid Waste	-	-	-	0%	
	7 728 270	**5 512 500**	**2 215 770**	**40%**	Please refer to the explanation on roads & stormwater
Community					
Community Assets	-	-	-	0%	
	-		-	**0%**	
Other Assets					
Computer Equipment	189 350	200 000	(10 650)	-5%	N/A
Furniture and Fittings	330 906	350 000	(19 094)	-5%	N/A
Motor Vehicles	95 835	100 000	(4 165)	-4%	N/A
Office Equipment	-		-	0%	
Plant and Equipment	-		-	0%	
Tools & Equipment	56 581	59 000	(2 419)	-4%	N/A
Other	62 468	66 000	(3 532)	-5%	N/A
	735 140	**775 000**	**(39 860)**	**-5%**	N/A
TOTAL	**8 463 409**	**6 287 500**	**2 175 909**	**35%**	Please refer to the explanation on roads & stormwater

APPENDIX F (1)
UPHONGOLO LOCAL MUNICIPALITY: LONG SERVICE BENEFITS

	2008	2009
Defined Benefit Obligation		
Opening Balance	113 794	148 149
Service Cost	18 428	23 663
Interest Cost	9 786	16 000
Actuarial (Gain)/Loss	6 141	10 098
Benefits Paid	-	-
Closing Balance	148 149	197 910
Amount Recognised in Balance Sheet		
Projected Benefit Obligation	148 149	197 910
Plan Assets	-	-
Amount recognised in balance sheet	148 149	197 910
Amount recongnised in Profit and loss		
Service Cost	18 428	23 663
Interest Cost	9 786	16 000
Actuarial loss/(gain) recognised	6 141	10 098
Amount recognised in income statement	34 355	49 761
Reconciliation of net balance sheet amount		
Opening value	113 794	148 149
Amount recognised in Income Statement	34 355	49 761
Payment made to pensioners	-	-
Closing value	148 149	197 910
Key Assumptions		
Discount Rate	10.80%	8.80%
Salary Inflation	8.80%	6.80%

APPENDIX F (2)
UPHONGOLO LOCAL MUNICIPALITY: POST RETIREMENT MEDICAL AID BENEFITS

	2008	2009
Defined Benefit Obligation		
Opening Balance	1 745 287	1 888 434
Interest Cost	146 455	198 870
Actuarial (Gain)/Loss	81 331	71 231
Benefits Paid	(84 640)	(94 090)
Closing Balance	1 888 434	2 064 445
Amount Recognised in Balance Sheet		
Projected Benefit Obligation	1 888 434	2 064 445
Plan Assets	-	-
Amount recognised in balance sheet	1 888 434	2 064 445
Amount recongnised in Profit and loss		
Interest Cost	146 455	198 870
Actuarial loss/(gain) recognised	81 331	71 231
Amount recognised in income statement	227 786	270 101
Reconciliation of net balance sheet amount		
Opening value	1 745 287	1 888 434
Amount recognised in Income Statement	227 786	270 101
Payment made to pensioners	(84 640)	(94 090)
Closing value	1 888 434	2 064 445
Key Assumptions		
Discount Rate	10.80%	8.80%
Medical Aid Inflation	9.80%	7.80%
Sensitivity to medical infaltion assumption		
1% increase in medical inflation		
Increase in defined benefit obligation	297 627	325 097
percentage	15.8%	15.7%
Increase in service cost and interest cost	32 119	28 586
percentage	16.2%	16.1%
1% decrease in medical inflation		
decrease in defined benefit obligation	(240 514)	(262 746)
percentage	-12.7%	-12.7%
decrease in service cost and interest cost	(25 951)	(23 099)
percentage	-13.0%	-13.0%
Analysis of actuarial Gains and losses		
Actuarial (gain)/loss on obligation	81 331	71 231
Actuarial basis change	-	-
Experience adjustments	81 331	71 231
% of liabilities	4.31%	3.45%